

Evolution of the Financial Services Industry: Cross Integration and Resource Utilization



Multistate Tax Commission

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Discussion Points



- Financial Modernization Legislation
- Financial Service Business Models
- Discussion and Questions

Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994

- Permitted banks and bank holding companies to purchase banks or establish subsidiary banks in any state nationwide.
- Permitted national banks to open branches or convert subsidiary banks into branches across state lines.

	1994	Mar-05	Change	% Change
Commercial Banks	10,452	7,598	(2,854)	-27.31%
Branches	55,145	69,725	14,580	26.44%
Total Offices	65,597	77,323	11,726	17.88%
Total Assets (\$ Trillion)	4.000	8.589	4.589	114.73%
Savings Institutions	2,152	1,332	(820)	-38.10%
Source: FDIC				

Gramm-Leach-Bliley Financial Modernization Act of 1999



- Created a financial holding company (FHC) that can engage in all authorized financial service activities.
- Created a financial subsidiary for banks that can engage in most of the authorized financial service activities.
- Newly authorized activities--securities, insurance, merchant banking/equity investment, “financial in nature”, and “complementary activities.”

Gramm-Leach-Bliley Financial Modernization Act of 1999



- Repeals prohibition against affiliation of banks with a securities affiliate.
- Amends the Riegle-Neal Act to apply to any branch of a bank owned by an out-of-state BHC.
- Repeals prohibition against interstate branching by an out-of-state bank primarily to establish deposit production offices.

Gramm-Leach-Bliley Financial Modernization Act of 1999



- Mandates State functional regulation of insurance sales activity (including a national bank exercising FRA agency powers).
- Gave the federal Reserve & the Treasury discretion to authorize new financial activities or complementary activities for FHCs.
- Established the Federal Reserve as the “umbrella” regulator for FHCs.

Financial Service Business Modes: Post GLB



- Global
- National
- Regional

Complex Diversified Model-- Global: Citigroup



Citigroup Profile—Year End 2004



- Total Revenues: \$86.2 billion
- Net Income: \$17.05 billion
- Total Assets: \$1.5 trillion
- Total Stockholders Equity: \$115.5 billion
- Return on Common Equity: 17.00%
- Territory Served: 100+ Countries over 6 Continents
- Customers: 200 million+
- Full Time Equivalent Employees: Over 294,000

Evolution of Citigroup



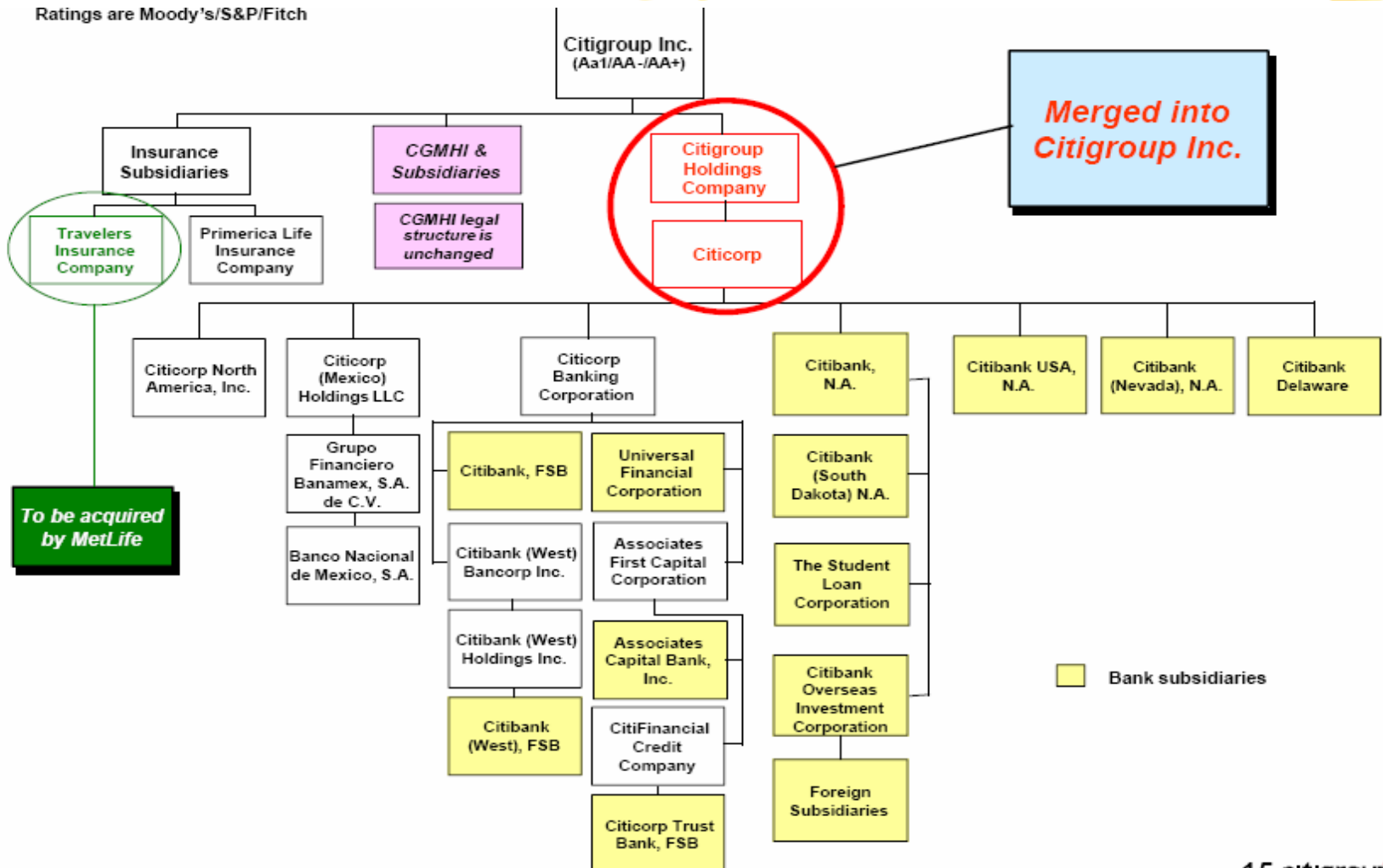
<u>Date</u>	<u>Acquirer/Surviving Name</u>	<u>Acquired/Merged</u>
1987	Primerica	Smith, Barney, Harris
1993	Primerica	Shearson Lehman
1993	Travelers Group	Primerica
1997	Travelers Group	Salomon Brothers
1998	Travelers Group	Citicorp (Citibank)
1998	Citigroup	

Citigroup Major U.S. Ownership Interests

FDIC Insured Institutions	State	Total Assets (\$000)	Other Citigroup Subsidiaries/Affiliates Covered By Hoover's Online
Associates Capital Bank, Inc.	UT	404,836	Citi Commerce Solutions
Universal Financial Corp.	UT	500,510	Citibank
California Commerce Bank	CA	1,902,097	Citicorp Venture Capital Ltd., Inc.
Citibank Texas, National Association	TX	4,189,920	CitiFinancial
Citibank USA, National Association	SD	5,635,306	Citigroup Geneva Capital Strategies
Citibank (Delaware)	DE	5,671,845	Citigroup Global Markets Holdings Inc.
Citibank (Nevada), National Association	NV	17,478,008	Citigroup Private Bank
Citicorp Trust Bank, fsb	DE	16,498,512	CitiMortgage, Inc.
Citibank, Federal Savings Bank	VA	32,276,085	CitiStreet LLC
Citibank (South Dakota), N.A.	SD	47,980,164	Grupo Financiero Banamex
Citibank (West), FSB	CA	105,047,177	Nikko Citigroup Limited
Citibank, National Association	NY	684,592,000	Primerica Financial Services, Inc.
			Remy International, Inc.
			The Student Loan Corporation

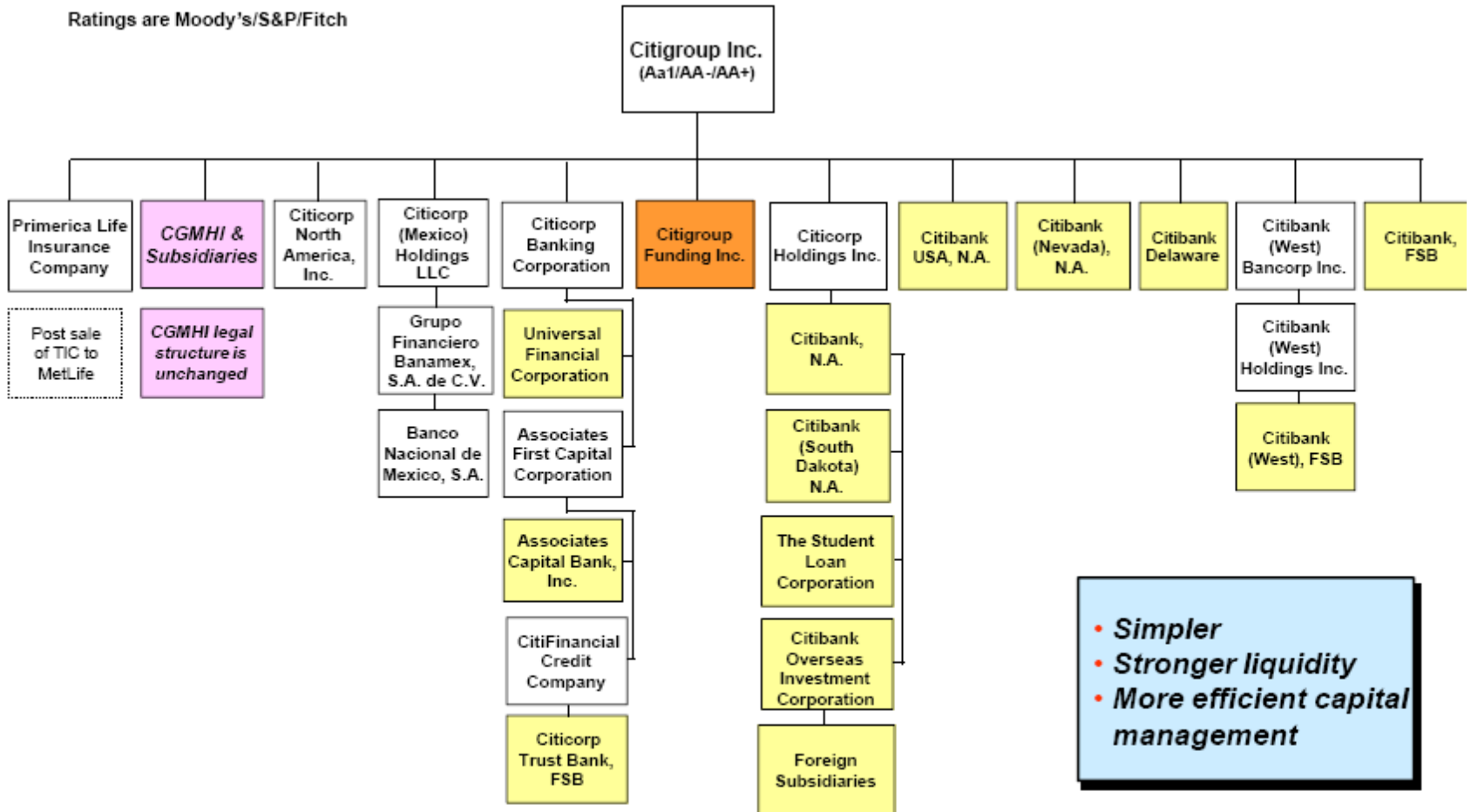
Citigroup Corporate Structure (2004)

Ratings are Moody's/S&P/Fitch



Citigroup Corporate Structure

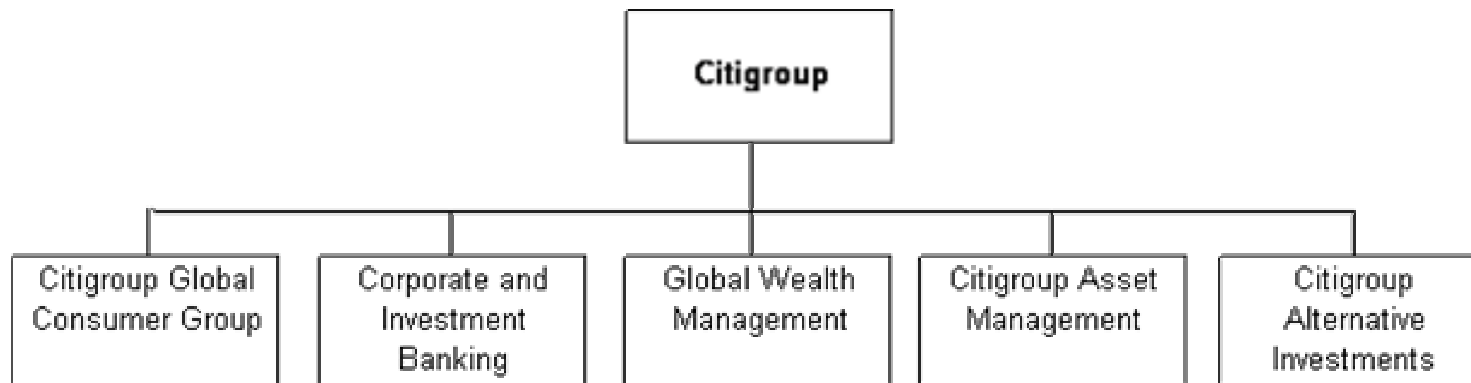
Ratings are Moody's/S&P/Fitch



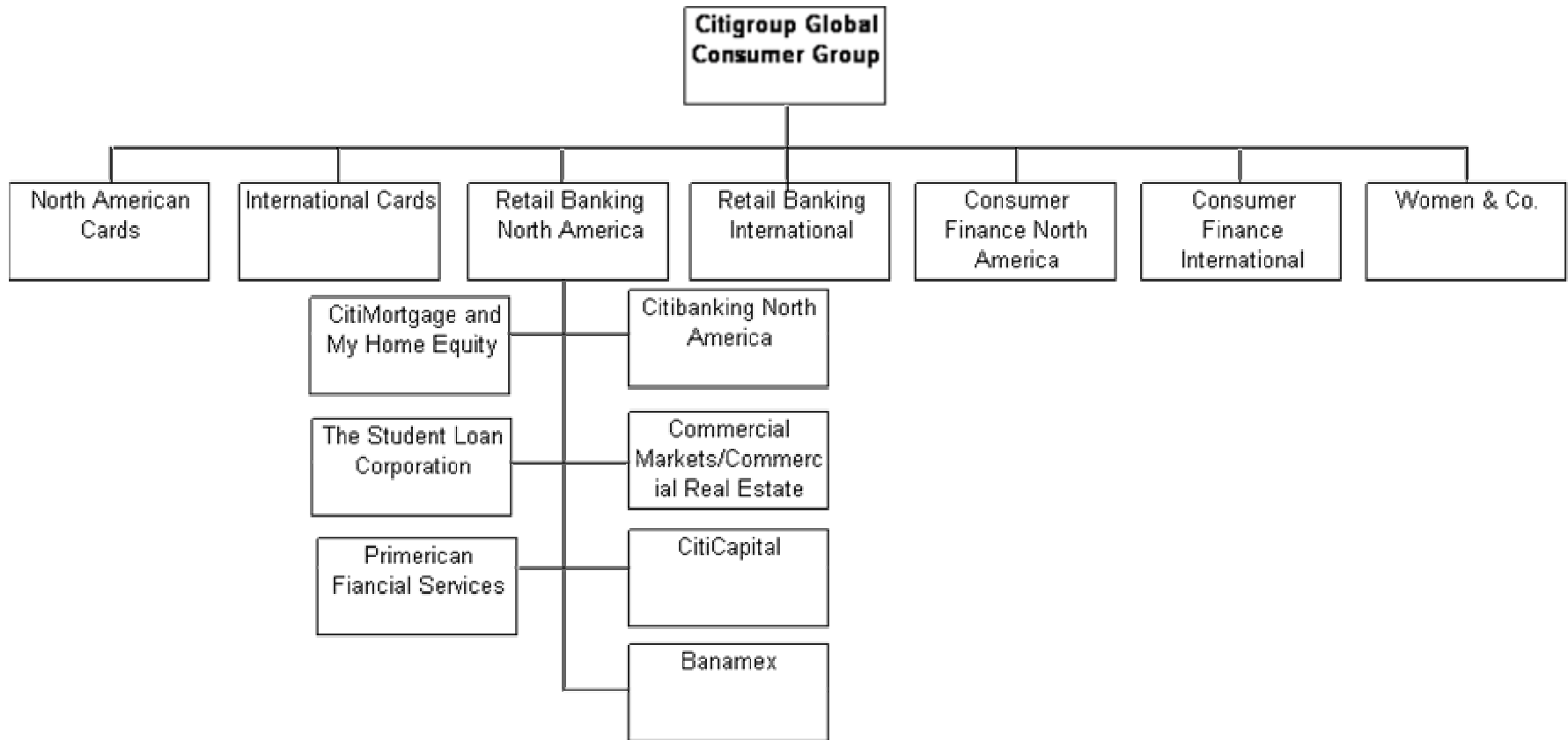
- First-tier subsidiary guaranteed by Citigroup Inc.
- Bank subsidiaries

- **Simpler**
- **Stronger liquidity**
- **More efficient capital management**

Citigroup Market Structure

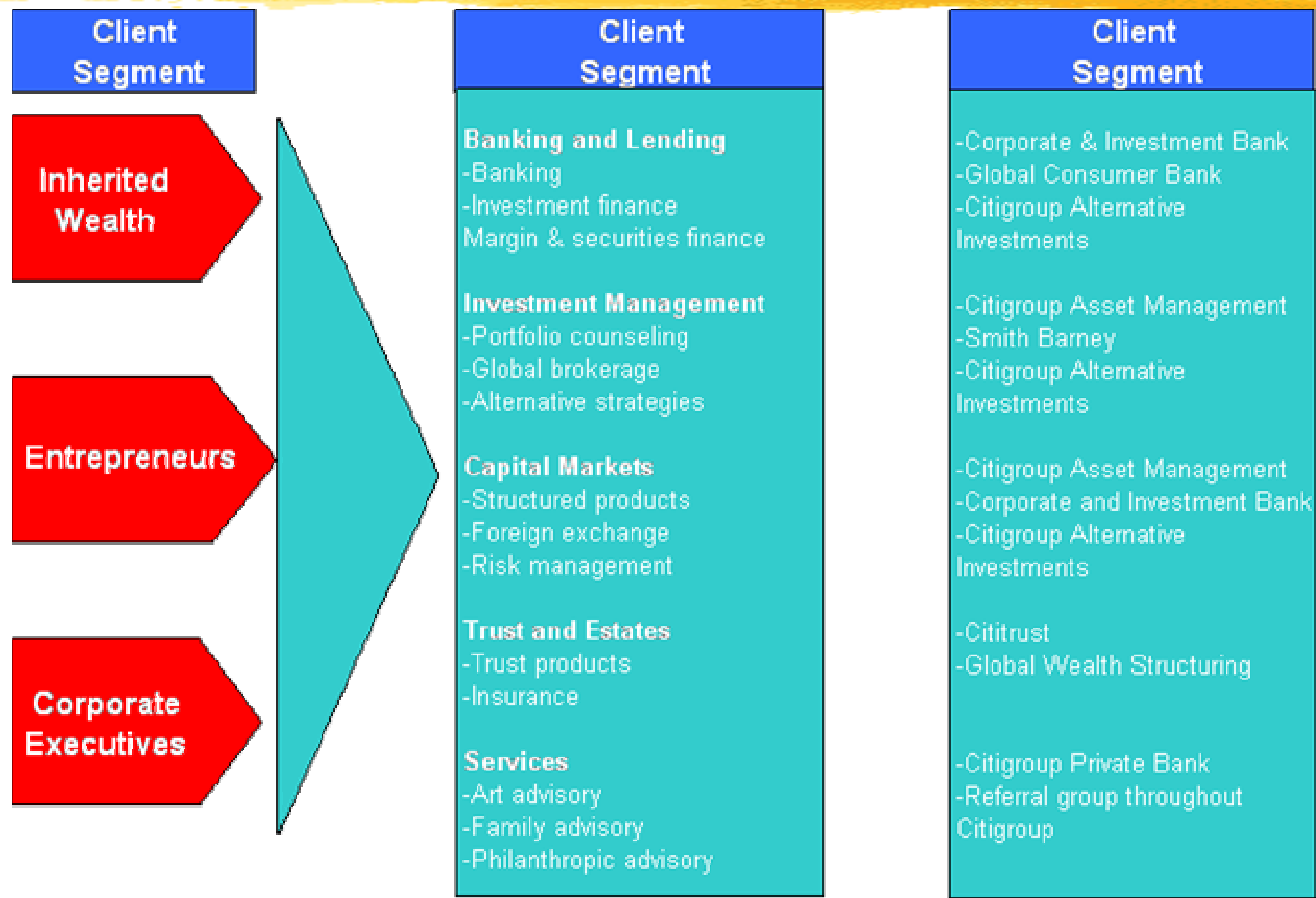


Detail of Market Structure



Citi Global Wealth Management

Leveraging Citigroup's Capabilities



Notice: Taken from a presentation made by Citigroup in 2003. Since then organization units have changed names and others have been identified. Comparings to today's market organization may not align.

Cross Marketing Efforts

Global Consumer: Banking/Lending

Employees of:	Are selling products and services of these firms:			
	Citibank	SSB	CitiFin.	CTB
Primerica		✓	✓	✓
Citibank branches		✓		
SSB	✓	✓		
Citibank credit card call centers			✓	✓

Complex Diversified Model-- Domestic: State Farm



Bank.

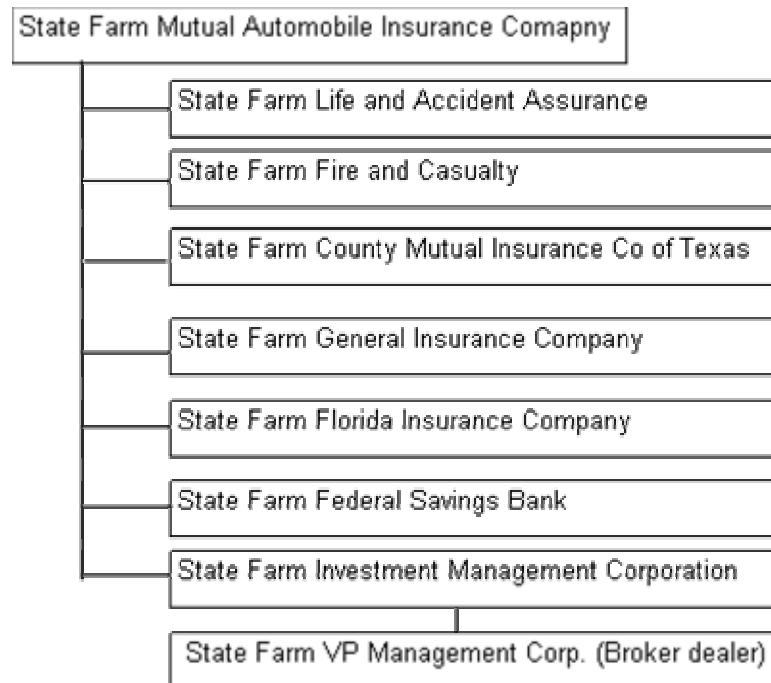
STATE FARM MUTAL FUNDS

State Farm Profile—Year End 2004



- Mutual company without shareholders
- Total Assets: \$84.4 billion
- Net Worth: \$46.3 billion
- Net Income: \$3.1 billion
- Policies in force 74.3 million
- Households served: 28 million
- Serves 50 states, District of Columbia and three Canadian provinces
- Employees: 69,000
- Agents 17,000

State Farm Companies



State Farm Bank



- Charter granted November 1998
- Bank opened March 12, 1999
- Initially available only to residents of central Illinois and St Louis MO
- Currently all U.S. agents trained to sell bank products
- Doesn't have traditional branches
- Accessible via agents, internet (3/29/2000), toll free telephone and the mail

Results through 12/31/2004



- Total assets: \$10.4 billion
- Total loans: \$5.8 billion
- Deposits: \$6.9 billion
- Number of customer accounts: 1.2 million
- Full time equivalent employees: 787
- Profitability (millions): 2003 (\$20.5), 2004 \$8.8
- ROA: 0.10%, ROE: 1.03%

State Farm Mutual Funds



State Farm Selling Mutual Funds Via Agents, Web

(January 12, 2001) State Farm Mutual Automobile Insurance Cos. is now selling 10 State Farm mutual funds in four states through its agents and its Web site. A nationwide rollout is planned in the first half of this year, says the Bloomington, Ill.-based company. This move represents yet another step by the carrier in its strategy to broaden its financial services offerings and offer "one-stop shopping" to its customer base, it says.

Mutual Fund Progress



	2002	2003	2004
Assets Under Management (\$ Billions)	\$0.30	\$1.10	\$2.00
Total Accounts	94,088	184,352	251,141
Profit (Loss) (\$ Millions)	??	(\$29.60)	(\$25.00)

What's the strategy...

To get some or all of the financial services of their 28 million plus households. The “what if” that follows focuses only on State Farm Bank.

	Accounts / Households	Deposits	Loans
Customer Accounts	1,200,000	6,900,000,000	5,800,000,000
Per Household (1.5 per HH)	1	8,625	7,250
1/10 of 1% of Households Served*	28,000	241,500,000	203,000,000
1% of Households Served	280,000	2,415,000,000	2,030,000,000
Estimated Current Households Served	2.86%	800,000	800,000
What if serve 10% of Households	2,800,000	24,150,000,000	20,300,000,000

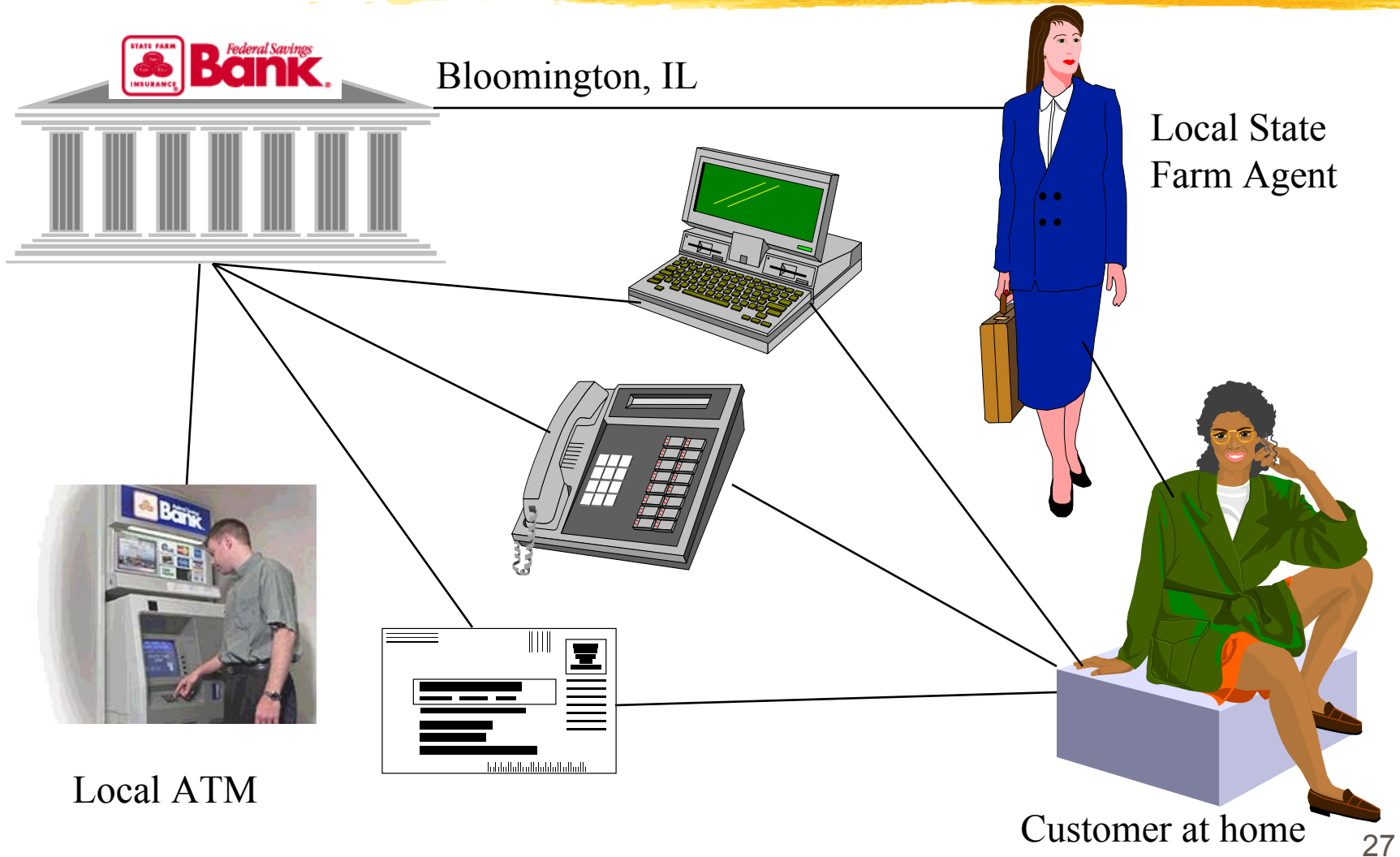
*Households represent 28 million served by State Farm Insurance

How will they do it?



- They have the name and address of existing customers.
- Agents are adding new insurance customers daily.
- Direct marketing to insurance customers.
- Mass market advertising.
- Attractive product pricing.
- In field sales force of 17,000+.
- Product bundling.
- Referrals from existing banking customers.

What it looks like.



Complex Diversified Model— Regional: BB&T Financial Corp.



BB&T

Winston-Salem, N.C.

Through its subsidiaries, BB&T offers a wide range of lending and deposit services. BB&T's subsidiaries also provide trust, insurance, securities brokerage and underwriting, leasing, factoring, treasury, asset management, and international services to business, governmental and consumer clients

BB&T Profile 12/31/2004



- Total Assets: \$100.5 billion
- Total Stockholders Equity: \$10.8 billion
- Return on Average Assets: 1.62%
- Return on Average Equity: 14.71%
- Full Time Equivalent Employees: 26,148
- 10th largest financial holding company in the U.S.
- 1,413 branch offices in 11 states

BB&T Ownership Interests

FDIC Insured Institutions	State	Total Assets (\$000)	Other BB&T Corporation Subsidiaries/Affiliates
BB&T Bankcard Corporation	GA	125,377	BB&T Insurance Services, Inc.
Atlantic Bank	MD	294,769	BB&T Investment Services, Inc.
First Virginia Bank - Blue Ridge	VA	680,886	BB&T Leasing Corporation
First Vantage Bank /Tri-Cities	VA	684,610	BB&T Factors Corporation
First Virginia Bank - Colonial	VA	1,081,886	FARR Associates Inc
First Virginia Bank - Hampton Roads	VA	1,269,025	Laureate Capital
First Virginia Bank-Southwest	VA	1,483,970	Lendmark Financial Services
Farmers Bank of Maryland	MD	1,628,151	Liberty Mortgage Corporation
First Virginia Bank	VA	5,526,148	Prime Rate Premium Finance Corporation, Inc.
Branch Banking and Trust Company of South Carolina	SC	5,658,765	Regional Acceptance Corporation
Branch Banking and Trust Company of Virginia	VA	10,615,018	Scott & Stringfellow Inc.
Branch Banking and Trust Company	NC	64,156,919	Sheffield Financial Corporation
			Stanley, Hunt, DuPree & Rhine, Inc.

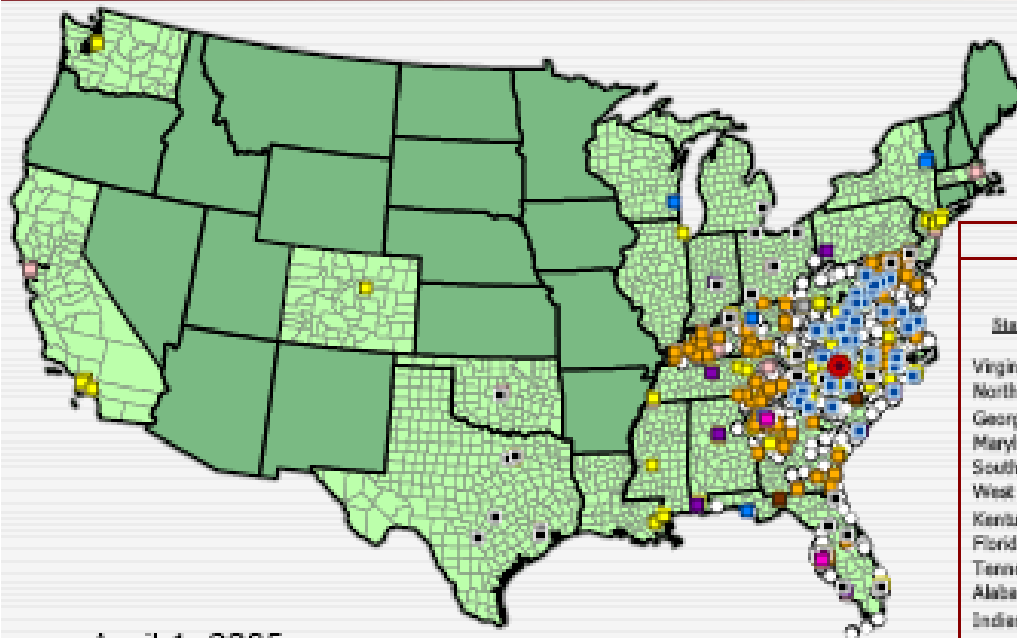
BB&T Acquisitions:



Since 1989, BB&T has completed the acquisition of 57 community banks and 72 thrifts, more than 72 insurance agencies and 27 non-bank financial services companies. This acquisition strategy has contributed significantly to BB&T's success.

BB&T Footprint

Market Coverage



April 1, 2005

BANKING OFFICES

State	Branches	Market Share ¹	% of BB&T's Deposits
Virginia/DC	415	2 nd	30%
North Carolina ²	333	2 nd	26%
Georgia	118	6 th	9%
Maryland	126	6 th	8%
South Carolina	98	3 rd	7%
West Virginia	80	1 st	6%
Kentucky	97	3 rd	6%
Florida	90	10 th	6%
Tennessee	47	8 th	2%
Alabama	2	"	"
Indiana	1	"	"
Total	1,407		

¹Incidental presence in Alabama and Indiana
²Excludes home office deposits

● Headquarters

○ BB&T Community

SUBSIDIARIES

■ BB&T Factors

■ BB&T Insurance

■ BB&T Leasing

■ Capital Markets

■ Laureate

■ Landmark

■ Prime Rate

■ Regional Acceptance

■ Sheffield

■ Scott & Stringfellow

■ Vine Street

Product Lines



- Small Business
- Commercial Middle Market
- Real Estate Lending
- Sales Finance
- Capital Markets
- Commercial Mortgage
- Leasing
- Treasury Services
- Payroll Processing
- Institutional Trust Services
- Factoring
- Asset-Based Lending
- International
- Bank Card
- Merchant
- Insurance
- Retail
- Home Equity Lending
- Home Mortgage
- Consumer Finance
- Wealth Management / Private Banking
- Asset Management
- Investment Services

Strong Bank/Investment Sales Culture:



1. **BB&T Investment Services, Inc.** is a retail brokerage firm headquartered in Charlotte, N.C., that serves every branch in the BB&T banking network.
2. Licensed Investment Counselors are available to meet with clients to help them determine their financial goals and to recommend a personal investment plan designed to meet those goals.
3. One of our key indicators is the percentage of client households utilizing five or more of BB&T's products and services. In our traditional "core" markets, approximately 34% of our client households use five or more BB&T products and services. In the new markets, 22% of our client households meet this threshold. This disparity presents a tremendous opportunity for growth.

BB&T future focus:



- Sell additional fee based services to existing and new clients,
- Acquire additional fee businesses to complement existing businesses or bring new abilities on board,
- Increase fee income as a percent of total revenue.

Conclusion



- Large banking companies are increasingly complex,
- They are selling services to the customers of other corporate subsidiaries through all possible marketing channels, and
- They are actively managing their portfolio of business and product lines via de novo expansion and, acquisitions and mergers.